

Message Text

LIMITED OFFICIAL USE

PAGE 01 SANTIA 03613 01 OF 02 302153Z

63

ACTION ARA-10

INFO OCT-01 ISO-00 CIAE-00 DODE-00 PM-03 H-02 INR-07 L-03

NSAE-00 NSC-05 PA-01 PRS-01 SP-02 SS-15 USIA-06

AID-05 COME-00 EB-07 FRB-03 TRSE-00 XMB-02 OPIC-03

CIEP-01 LAB-04 SIL-01 OMB-01 EUR-12 STR-04 /099 W

----- 127054

R 302050Z MAY 75

FM AMEMBASSY SANTIAGO

TO SECSTATE WASHDC 3443

LIMITED OFFICIAL USE SECTION 1 OF 2 SANTIAGO 3613

EO 11652: N/A

TAGS: EGEN, PINT, CI

SUBJECT: EX-PRESIDENT FREI HEATS UP CHILEAN DEBATE ON ECONOMIC
POLICY

1. SUMMARY. IN A LONG INTERVIEW WITH EDITOR OF PDC-LINE
ERCILLA, EX-PRESIDENT EDUARDO FREI HAS STRONGLY ATTACKED
UNDERLYING PHILOSOPHY OF GOC ECONOMIC POLICIES AS INAPPROPRIATE
TO CHILE'S ECONOMIC CIRCUMSTANCES. PRESS SUPPORTING GOC
POLICIES HAS REACTED BLAMING FREI GOVERNMENT ALONG WITH UP
FOR CHILE'S PAST AND PRESENT ECONOMIC PROBLEMS. SANTIAGO HAS
BEEN RIFE WITH RUMORS (APPARENTLY UNFOUNDED) ABOUT WITHDRAWAL
OF THIS ERCILLA EDITION FROM NEWSSTANDS AND OTHER POSSIBLE
REPRISALS. INCIDENT TESTS ACCEPTABLE LIMITS OF DISSENT UNDER
JUNTA. END SUMMARY.

2. IN AN INTERVIEW WITH EDITOR OF CHRISTIAN DEMOCRATIC LINE
NEWSWEEKLY, ERCILLA, MAY 28 EDITION, EX-PRESIDENT EDUARDO FREI
DISAGREES SHARPLY WITH ECONOMIC POLICIES EMBODIED IN GOC'S
ECONOMIC RECOVERY PROGRAM. GIST OF FREI'S ARGUMENT IS THAT
GREATER RELIANCE ON MARKET MECHANISM AT TIME OF ENORMOUS
ECONOMIC DIFFICULTIES WILL WORSEN CHILEAN ECONOMIC SITUATION,
PARTICULARLY FOR LOWER INCOME GROUPS. FREI CITES SMALLNESS
LIMITED OFFICIAL USE

LIMITED OFFICIAL USE

PAGE 02 SANTIA 03613 01 OF 02 302153Z

OF CHILEAN MARKET, MONOPOLISTIC STRUCTURE OF PRODUCTION,

TREMENDOUS BOP DEFICIT AND STRONG INFLATIONARY EXPECTATIONS AS FACTORS OVERWHELMING POSITIVE ELEMENTS IN FREE MARKET APPROACH.

3. FREI CALLS ON GOVERNMENT NOT ONLY TO CHANGE ITS ECONOMIC POLICIES BUT ALSO ITS ECONOMIC MODEL. REFERRING TO FRIEDMAN/SAMUELSON/GALBRAITH DEBATE IN U.S. OVER GOVERNMENTAL INTERVENTION TO CONTROL INFLATION AND UNEMPLOYMENT, FREI ATTEMPTS TO PUNCTURE IDEA THAT ANY PARTICULAR THEORY HAS MONOPOLY ON TRUTH. FREI CHARACTERIZES AS SENSELESS ANY EFFORT TO APPLY IDEAS DEVELOPED IN VERY DIFFERENT CONTEXT TO CHILEAN CASE.

4. WHILE HIS REMEDY IS NOT CLEARLY SPELLED OUT, FREI INSISTS STATE MUST INTERVENE MORE EXTENSIVELY AND DECISIVELY IN ECONOMY TO BREAK INFLATIONARY PSYCHOLOGY. HE SEES CHILE'S PRESENT ECONOMIC SITUATION NOT AS ANALOGOUS WITH GERMANY'S IN 1948 WHEN CONTROLS REMOVED OR BRAZIL'S IN 1964 (EXAMPLES WHICH SUPPORTERS OF GOC POLICIES LIKE TO CITE IN THEIR FAVOR), BUT WITH WARTIME AND OTHER EMERGENCIES WHEN EVEN U.S. AND OTHERS VOICING FREE MARKET PHILOSOPHY ADOPT STRONG CONTROLS. FREI ALSO TWITS FREE MARKETEERS FOR INCONSISTENCIES IN NOT ADVOCATING FREE LABOR MARKET AND "FREE" DETERMINATION OF APPROPRIATE AMOUNT OF GOVERNMENTAL SERVICES (BY INFERENCE, ELECTIONS AND RESTORATION OF PARLIAMENTARY PROCESS).

5. FREI ASSERTS THAT CHILE WILL NEED ENORMOUS FOREIGN ASSISTANCE, OTHER THAN IMF TYPE AND DEBT RENEGOTIATION TO OVERCOME ECONOMIC PROBLEMS - I.E., IT WILL NEED FOREIGN CAPITAL FOR ECONOMIC DEVELOPMENT. IN OBVIOUS ALLUSION TO UNPOPULARITY OF CHILEAN REGIME ABROAD, FREI NOTES THAT A HIGH PRICE WILL HAVE TO BE PAID DOMESTICALLY IF A WAY IS NOT FOUND TO OBTAIN SUCH ASSISTANCE.

6. IN REMARK WITH CLEAREST POLITICAL OVERTONES, FREI DENIES THAT SOLUTION TO CHILE'S "PROBLEM" IS EXCLUSIVELY ECONOMIC. FREI CONCLUDES WITH STATEMENT THAT POLITICAL, SOCIAL, AND HUMAN FACTORS WEIGH MORE HEAVILY THAN ECONOMIC IN RESOLVING CHILE'S EXTERNAL AND INTERNAL PROBLEMS, AND WITH APPEAL TO "RESPECT AND OBJECTIVITY" IN JUDGING OPINION OF OTHERS.

LIMITED OFFICIAL USE

LIMITED OFFICIAL USE

PAGE 03 SANTIA 03613 01 OF 02 302153Z

7. GOVERNMENT SUPPORTERS IN PRESS RESPONDED PROMPTLY THOUGH INDIRECTLY TO FREI CHALLENGE. IN INTERVIEW APPEARING THE FOLLOWING DAY IN CONSERVATIVE WEEKLY QUE PASA, NEW ECONOMIC MINISTER SERGIO DE CASTRO TAKES SEVERAL SWIPES AT FREI ADMINISTRATION'S ECONOMIC RECORD AND AT PRESENT DETRACTORS OF GOC'S ECONOMIC PROGRAM. FROM TEXT IT IS APPARENT THAT AT LEAST GIST OF FREI INTERVIEW MAY HAVE BEEN OBTAINED BY GOVERNMENT AND SOME SANTIAGO MEDIA PRIOR TO PUBLICATION.

LIMITED OFFICIAL USE

NNN

LIMITED OFFICIAL USE

PAGE 01 SANTIA 03613 02 OF 02 302209Z

63

ACTION ARA-10

INFO OCT-01 ISO-00 CIAE-00 DODE-00 PM-03 H-02 INR-07 L-03

NSAE-00 NSC-05 PA-01 PRS-01 SP-02 SS-15 USIA-06

AID-05 COME-00 EB-07 FRB-03 TRSE-00 XMB-02 OPIC-03

CIEP-01 LAB-04 SIL-01 OMB-01 EUR-12 STR-04 /099 W

----- 127305

R 302050Z MAY 75

FM AMEMBASSY SANTIAGO

TO SECSTATE WASHDC 3444

LIMITED OFFICIAL USE SECTION 2 OF 2 SANTIAGO 3613

8. IN PAST, SUPPORTERS OF GOC ECONOMIC POLICIES HAVE PLAYED HEAVILY THEME THAT PRESENT ECONOMIC DIFFICULTIES ARE CONSEQUENCE OF DISASTROUS UP POLICIES AND ONLY LIGHTLY WHEN AT ALL ON THEME THAT STATISM OF FREI REGIME ALSO PARTLY RESPONSIBLE. IN QUE PASA INTERVIEW MINISTER OF ECONOMY DE CASTRO LASHES OUT STRONGLY AT IMPORT SUBSTITUTION POLICIES PRACTICED BEFORE 1970 AS CREATING SEVERE INCOME DISTORTIONS AND HIGH INFLATION AND AS EVENTUALLY LEADING TO LOW GROWTH RATES. DE CASTRO DEFENDS GOC'S RECORD ON INCOME DISTRIBUTION, CLAIMING GOC IS MAINTAINING REAL WAGES AND ESPECIALLY WAGES OF LOWEST PAID. ON EMPLOYMENT HE CLAIMS GOC IS DOING MORE -- UNEMPLOYMENT RELIEF AND GOVERNMENT EMPLOYMENT PROGRAMS -- THAN ANY OF ITS PREDECESSORS EVER DID FOR UNEMPLOYED. IN PARTING SHOT, DE CASTRO COMPLAINS ABOUT THOSE WHO CENSURE GOC PROGRAM WITHOUT PROPOSING AN ALTERNATIVE AND WHO CALL FOR MOBILIZING ALL POSITIVE MEANS FOR RESOLVING CHILE'S ECONOMIC POLICIES WITHOUT SPECIFYING PRECISELY WHAT IS TO BE DONE.

9. MEANWHILE, RUMORS WERE RIFE IN SANTIAGO ABOUT FREI INTERVIEW, RANGING FROM SOME KIND OF PUNITIVE ACTION TAKEN AGAINST ERCILLA BY RIGHTWING GOON SQUADS TO FLYERS DISTRIBUTED IN GOVERNMENT OFFICES DENOUNCING FREI BY NAME. WE HAVE BEEN UNABLE TO CONFIRM ANY OF THESE ITEMS, AND ERCILLA DENIES THEM.

LIMITED OFFICIAL USE

LIMITED OFFICIAL USE

PAGE 02 SANTIA 03613 02 OF 02 302209Z

ILLUSTRATIVE OF CHARGED ATMOSPHERE, HOWEVER, WAS FACT THAT PERSISTENT RUMOR THAT GOC HAD ORDERED CONFISCATION OF ALL ISSUES OF ERCILLA FROM NEWSSTANDS BROUGHT SHARP GOVERNMENT PUBLIC DENIAL. ERCILLA OFFICIAL TOLD EMBOFF THAT INABILITY OF PUBLIC TO FIND IT ON NEWSSTANDS WAS DUE SIMPLY TO FACT THAT ISSUE HAD SOLD OUT.

10. COMMENT: CHILEAN PRESS HAS BEEN CARRYING ON LIVELY AND SOMETIMES STRIDENT DEBATE ON GOC ECONOMIC POLICIES. ALTHOUGH GOC LONG AGO HAD SAID ECONOMIC POLICY NOT INCLUDED IN PROHIBITION ON POLITICKING, OPPONENTS OF PARTICULAR GOC POLICIES HAVE BEEN DISCREET, OFTEN OBLIQUE, IN CRITICIZING ECONOMIC PHILOSOPHY OF REGIME. MOST PROMINENT PRESS CRITIC HAS BEEN ORLANDO SAENZ, A FORMER PRESIDENT OF CHILEAN MANUFACTURERS ASSOCIATION (SOFOFA) AND EARLY APOLOGIST OF NEW MILITARY GOVERNMENT, WHO HAS BEEN DIRECTING BARBS AT MARKET LIBERALIZATION PROGRAM FROM POST AT CHILE'S LARGEST BREWERY WHERE HE IS PRESIDENT.

11. SAENZ PREOCCUPATION WITH GOC POLICY OF LESS GOVERNMENTAL SPENDING, SMALLER GOVERNMENTAL ROLE IN ECONOMY, AND TRADE LIBERALIZATION IS SHARED BY MUCH OF CHILEAN BUSINESS COMMUNITY WHICH IS LONG ACCUSTOMED TO, AND HAS GREATLY PROFITED FROM, GOVERNMENTAL PROTECTION AND DIRECTION. THAT PART OF BUSINESS COMMUNITY, HOWEVER, HAS BEEN RELUCTANT TO CRITICIZE IN VIEW OF GOC'S LEVERAGE FOR PUNISHING PUBLIC DISSIDENCE.

12. EVEN THOUGH MUCH OF GOC ECONOMIC TEAM FORMERLY AFFILIATED WITH PDC, ITS MARKET PHILOSOPHY RUNS STRONGLY COUNTER TO MODERATELY SOCIALISTIC PHILOSOPHY OF PDC MAINSTREAM. UP UNTIL NOW PDC HAS STAYED ON SIDELINES IN PUBLIC ECONOMIC DEBATE (EXCEPT FOR OCCASION GUARDED CRITICISM IN ERCILLA'S PAGES). PRIVATELY, HOWEVER, PDC LEADERS HAVE COMPLAINED BITTERLY ABOUT GOC ECONOMIC PROGRAM, PARTICULARLY WITH RESPECT TO ITS INCOME DISTRIBUTION EFFECTS AND ITS FAILURE TO REMEDY UNEMPLOYMENT. REPORTEDLY PDC WAS READY TO BREAK PUBLIC SILENCE IN APRIL WITH SAME FREI INTERVIEW TECHNIQUE. CABINET SHUFFLE AND ANNOUNCEMENT OF IMPENDING ECONOMIC RECOVERY PROGRAM APPARENTLY CAUSED PDC TO HOLD BACK. WITH WORST FEARS CONFIRMED AS DETAILS OF NEW PROGRAM WERE ANNOUNCED, FREI AND PDC PRESUMABLY DECIDED TIME TO CHALLENGE GOVERNMENT HAD ARRIVED. FREI ARTICLE IS

LIMITED OFFICIAL USE

LIMITED OFFICIAL USE

PAGE 03 SANTIA 03613 02 OF 02 302209Z

IN LINE WITH PARTY'S RECENTLY ADOPTED DECISION TO ENGAGE IN A

CONSTRUCTIVE "DIALOGUE" WITH THE MILITARY (SANTIAGO A-87),
AND ALSO SERVES TO REMIND PARTY MEMBERS THAT PDC LEADERS ARE
STILL ALIVE AND KICKING.

13. GOC IN RECENT MONTHS HAS CONSPICUOUSLY AVOIDED CONFRONTATION
WITH PDC. IT MAY DECIDE NOW THAT REPROACHING FREI, PDC, AND
OTHER OPPOSITION FOR PROPOSING VAGUE SHOPWORN REMEDIES SUFFICES
AT THIS STAGE, HOPING OPPONENTS WILL BE INTIMIDATED OR INCAPABLE
OF ACCEPTING CHALLENGE TO SPECIFY PRECISE ALTERNATIVE PROGRAM.
BUT GOING BEYOND THE ECONOMIC DEBATE ITSELF, FACT IS THAT
CRITICISM AND CONTROVERSY ARE REAPPEARING IN A PART OF CHILEAN
PRESS, AND THAT PDC IS IN FOREFRONT WITH FREI AS SPOKESMAN.
IN THIS SENSE, JUNTA IS BEING CHALLENGED, AND ITS CRITICS
ARE PROBING TO DISCOVER ACCEPTABLE LIMITS OF DISSENT. QUESTION
NOW IS WHETHER REGIME WILL DECIDE THAT IT CAN LIVE WITH SOME
SORT OF "LOYAL OPPOSITION" IN A RESTRICTED SPHERE.

14. MORE DETAILED ANALYSIS BY AIRGRAM.POPPER

LIMITED OFFICIAL USE

NNN

Message Attributes

Automatic Decaptioning: X
Capture Date: 01 JAN 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: PERSONAL OPINION, PRESS CONFERENCES, ECONOMIC PROGRAMS
Control Number: n/a
Copy: SINGLE
Draft Date: 30 MAY 1975
Decaption Date: 01 JAN 1960
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Authority: GolinoFR
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 28 MAY 2004
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1975SANTIA03613
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: N/A
Errors: N/A
Film Number: D750190-0442
From: SANTIAGO
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1975/newtext/t1975055/aaaaadya.tel
Line Count: 241
Locator: TEXT ON-LINE, ON MICROFILM
Office: ACTION ARA
Original Classification: LIMITED OFFICIAL USE
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 5
Previous Channel Indicators: n/a
Previous Classification: LIMITED OFFICIAL USE
Previous Handling Restrictions: n/a
Reference: n/a
Review Action: RELEASED, APPROVED
Review Authority: GolinoFR
Review Comment: n/a
Review Content Flags:
Review Date: 05 SEP 2003
Review Event:
Review Exemptions: n/a
Review History: RELEASED <05 SEP 2003 by CunninFX>; APPROVED <19 NOV 2003 by GolinoFR>
Review Markings:

Margaret P. Grafeld
Declassified/Released
US Department of State
EO Systematic Review
05 JUL 2006

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: NATIVE
Subject: EX-PRESIDENT FREI HEATS UP CHILEAN DEBATE ON ECONOMIC POLICY
TAGS: EGEN, PINT, CI, (FREI, EDUARDO)
To: STATE
Type: TE
Markings: Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 05 JUL 2006